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"Planning for Retirement, and the Role Employers Play"

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By

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ABSTRACT (100-200 WORDS):

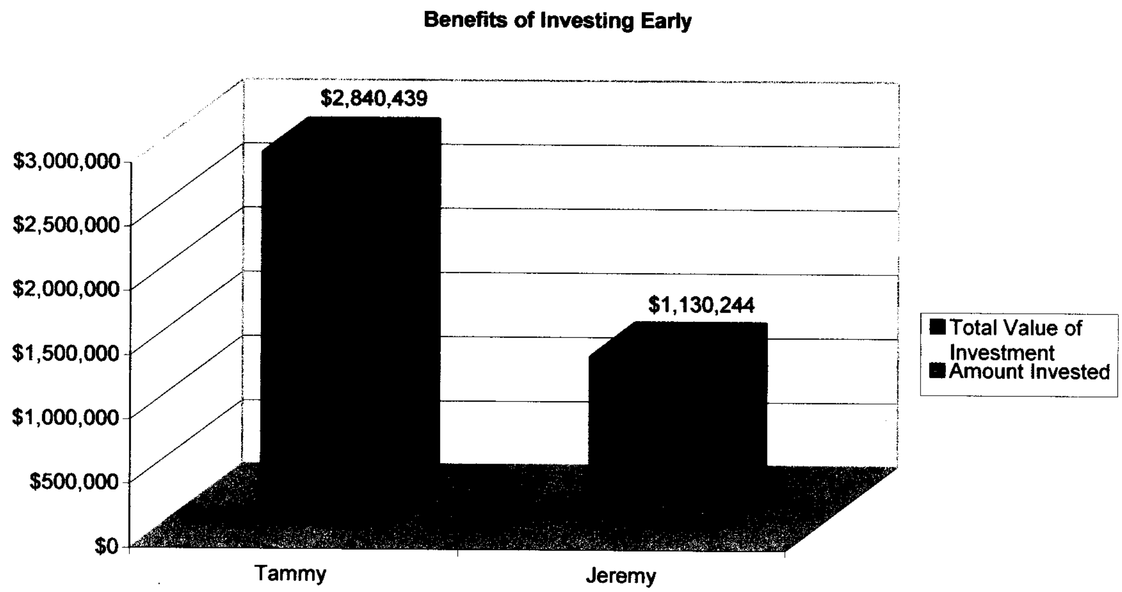
The purpose of this research report is to explore different types of retirement plans that are available to individuals, both company sponsored and non-company sponsored, and to identify issues that will help a potential investor to develop a better understanding of what should be considered in planning for retirement. This paper examines the regulations set by Congress to establish limitations for the investment of different retirement options. The report also considers the fall of Enron and the impact on its employees after the firm filed for bankruptcy. Secondary sources were used to bring a variety of points of view to the research. This research report can serve as a helpful guide for recent college graduates and anyone else whose goal is to begin saving for retirement.

I. Introduction

When it comes time for individuals to start thinking about their financial future, do they really know what steps should be taken in planning for retirement? There are many different options for people to take into consideration when saving for their future. But why should they save? If an individual is 25 years old and has just started a career, he or she might think that retirement is so far in the future that it does not need to be considered. There are also people who will be candidates for retirement in the near future, but have not even started a retirement plan. It is never too early or too late to start a retirement plan. Of course, the earlier someone starts, the better off he or she will be. But the main issue is to get started.

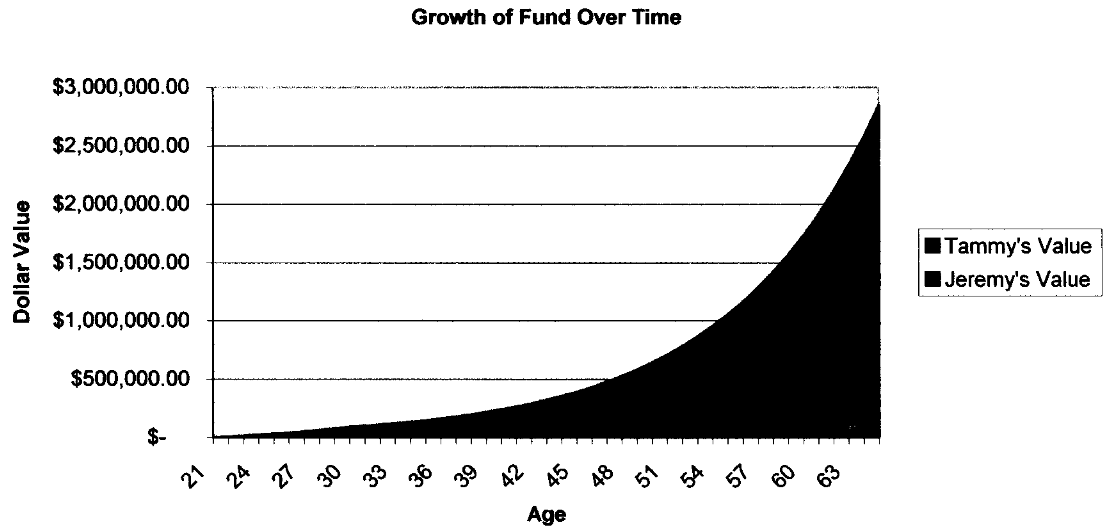
To illustrate the benefits of investing for retirement at an early age, take a look at the following example. Suppose there are two individuals who are the same age, but start investing at different points in their lives. The first investor, Tammy, starts investing at the age of 21, and invests $500 a month until the age of 30. Tammy does not invest any more money into her retirement plan, which she plans to draw upon at the age of 65, but instead just sits back and watches her investment grow. Jeremy also invests $500 a month, but does not start investing until he reaches the age of 35. Jeremy, however, continually puts $500 a month into his retirement plan until the age of 65. If the assumption is made that both individuals make similar investments that earn an interest rate of 10% compounded monthly, Tammy's investment is actually worth much more than Jeremy's (ignoring taxes). In fact, Tammy will have a total of $2,840,439 available to her at age 65, from a total investment of only $54,000 made between the ages of 21 and 30. In contrast, Jeremy will have a total of $1,130,244 at age 65, after investing a total of $180,000 but not starting until age 35 (See Exhibit 1). This example demonstrates that although Jeremy contributed more than three times as much money as Tammy, his retirement fund is worth less than half of hers at the age of 65 due to the fact that he waited until he was much older to start saving. In fact, in order for Jeremy to have the same amount of money as Tammy at the time of his retirement, he would have to invest $1,256.56 a month, or a total of $452,362 if he waited until age 35 to start saving.

Exhibit 1:



The above exhibit is a helpful graph comparing the two individual investors. The blue area in the bar represents the amount of money that each individual put into the retirement account, while the magenta color shows the total value of the investment at the age of retirement. Moreover, Exhibit 2 demonstrates how the funds grow over a period of time. Since Tammy starts investing at the age of 21, her investment grows over the entire period between the ages 21 and 65. On the other hand, Jeremy did not start investing until the age of 35, so his funds saved are zero from the ages of 21 to 35. This example helps to demonstrate why it is beneficial to start saving for retirement at an early age.

Exhibit 2:



Why is it so important to invest for the future? When it comes time for people to retire, they will need a substantial amount of money to maintain their current lifestyle. If they are able to collect Social Security benefits, this is good—but it will not be enough. Retirement planning experts say that individuals will need 60%-80% of their working income to maintain their standard of living when they retire. However, Social Security Administration figures for 2000 show that income provided by Social Security was approximately 18% of an individual's total needs ("Building Blocks," 3). In addition to Social Security benefits, defined benefit plans offered by employers, commonly called pension plans, are also beneficial. However, these will still more than likely leave people short of the total amount of money they will need for retirement. Recognizing this shortfall early and starting to save for your future retirement needs as soon as possible will help to ensure that your long-term savings goals will be met.

Determining the amount of money to be put away now in order to meet expenses during retirement can be challenging. People want to be sure that they save enough, but also want to be sure that they are not limiting current discretionary spending unnecessarily.

The "Building Blocks for Your Financial Future: A Guide to Understanding the State of Illinois Deferred Compensation Plan" suggests that individuals save according to the following chart:

		Amount of Money Already Saved for Retirement			
		0 no savings	1/2 annual salary	1x annual salary	2x annual salary
Years Until Retirement	35	11%	8%	5%	0%
	30	14%	11%	8%	2%
	25	19%	16%	12%	6%
	20	16%	23%	19%	11%
	15	39%	34%	30%	21%
	10	65%	59%	52%	40%

The numbers reflected in this table are a percentage of what individuals should consider saving each year. It would be wise to consult a financial planner before making a final decision. This table makes the following assumptions: "a replacement income of 70% of your preretirement income, with other sources (i.e., Social Security and pension) providing 42% of your preretirement income and your savings making up the remaining 28%; inflation will average 5% a year through retirement; investments will earn 8% a year; pay will keep up with inflation; retirement will last 24 years; investment will grow free of taxes; and earnings compounded annually" ("Building Blocks," 10).

II. Retirement Plan Alternatives

Investing in a retirement plan for the future is imperative. Deciding what plan to enroll in and how much to save is another big step. Employees should determine whether their employer offers a retirement plan such as a 401(k) or a 403(b) plan. If their employer has a retirement savings plan, it is usually to the employees' advantage to enroll in that plan. Most firms have a matching system in which they will match a percentage of the amount the employee puts into the account. For instance, if an employer matches the employee's contribution by 50%, it means that for every dollar the employee adds to the account, the company contributes $.50; the employee has a 50% instantaneous return on this investment. Employer contributions match can range from 15% to a dollar-for-dollar match. Roughly half of companies will match 50% of the employees' contribution, and 15% of firms have a dollar-for-dollar match (Lum, 360).

Comparing different company sponsored retirement plans will help to clarify what advantages each plan has to offer. A defined benefit plan, more commonly know as a pension plan, is a company-sponsored retirement plan where each firm's rules determine how it is funded. Some companies fully fund the pension plan for its employees, while others require the employee to make contributions to the plan. If the employer requires its workers to contribute to the fund, it is best to start as soon as possible for the reasons noted in Exhibit 1. The two main factors that determine an employee's pension benefits are his/her income and the number of years the employee works. Some employers take an average of the employees' five highest years of annual income, while others use their final salary to determine pension benefits. For example, a company may use a formula that multiplies the number of years worked for a company by 0.015 times the final salary.

Therefore, if a worker made $60,000 in his final year, and had been working for 25 years, his annual pension benefit would be approximately $22,500 or 0.015*25*$60,000 (Boone, Kurtz, and Hearth, 461).

Most pension plans have vesting requirements, which means that an employee must work for the firm for a specified number of years in order to receive full retirement benefits from the plan. If a company's plan is cliff-vested, it means that employees must work a specified number of years before they become eligible to obtain any pension benefits from the firm. For example, if the company requires its workers to be employed with them for four years before becoming vested, and an employee leaves after 3 ½ years, he will not receive any employer contributed pension benefits. There are also companies that calculate vesting by the number of years its employees have worked for them. For instance, workers can be 40% vested after working for the firm for five years, 60% after working for six years, and so on. With this plan, employees may still participate in the retirement plan, even if they leave the firm before becoming completely vested; they will receive partial pension benefits (Lum, 359).

The major advantage of a defined benefit plan, or pension plan, is that the employees can receive the specified funds for the rest of their lives (Lum, 359). Two important things to remember about pension plans are vesting and security. "After a certain period of service, a percentage of your benefits become vested, meaning you cannot lose those benefits even if you leave your job. Vesting, in effect, guarantees benefits at retirement" (Boon, Kurtz, and Hearth, 461). When looking at the security of a pension plan, it is important to note that many employers do not adequately fund the plans. This means that the amount of money in the pension fund, relative to the liabilities or monies to be paid to retired individuals, is not sufficient. This can cause expected compensation from the plan to be delayed or reduced. In 1974, Congress passed the Employee Retirement Income Security Act (ERISA) as a means to improve the nation's defined benefit plans. ERISA is essentially a way to protect workers and their pension plans by regulating funding and investment policies of private pension funds. ERISA does not, however, apply to employees of state and local governments (public pension funds) (Boon, Kurtz, and Hearth, 461). Some of the provisions produced by ERISA include requiring employers to disclose information about the pension funds to employees and to provide insurance to ensure benefits in cases where the employer defaults or terminates a plan. "The federal insurance organization established by ERISA is the Pension Benefit Guarantee Corporation (PBGC), which insures benefits up to about $2,000 per month, with the maximum amount adjusted for inflation in future periods" (Besley and Brigham, 77). ERISA has proved to be a beneficial law to help protect employees from substantial losses.

In addition to pension plans, there are other types of company-sponsored plans that assist individuals in saving for their retirement, known as defined contribution plans. A defined contribution plan is a retirement funding option; the amount that will be available upon retirement is based upon the amount invested and the returns that investment generates over time. Different from the defined benefit plan (pension plan) there is much more uncertainty about the extent of benefits available at retirement. Examples of defined contribution plans include profit sharing plans, money purchase plans, 401 (k) plans, and 403 (b) plans. Although these plans differ in some details, Boone, Kurtz, and Hearth suggest that they all share three common characteristics:

- Contributions often come from both the employee and the employer. A typical arrangement is that the employer matches employee contributions based on a published formula.
- The employee has more control over where retirement funds are invested. Most defined contribution plans offer employees a range of investment options. The employee may be able to choose where the money is invested, with perhaps a few restrictions. The employee may also be able to move the money from investment to investment as he or she wishes.
- Participation may be partly or totally voluntary. Employees may be able to choose whether or not to participate and, if they do participate, how much they will contribute (463).

Investing in a defined contribution plan can also reduce taxes by allowing individuals to defer their taxes to a later year. "Tax deferral means you pay no income taxes on the money your account earns until you receive a payment from the Plan" ("Building Blocks," 4). If an individual is 25 years old and in the 33% tax bracket, and if he plans to invest $4,000 a year in a plan such as a 401 (k), this person will defer $.33 in taxes for every dollar contributed, or $1,320 a year. There are limits as to how much can be contributed for investment. Currently, individuals can invest 15% or $11,000 of their annual income, whichever is less (this will grow to $15,000 by the year 2006, *see chart below*) ("Retirement Plan").

Defined Contribution Plan Limits

2002	$11,000
2003	$12,000
2004	$13,000
2005	$14,000
2006 or thereafter	$15,000 (indexed in $500 increments)

The contribution limits are set by the Economic Growth and Tax Relief Reconciliation Act of 2001 ("Plan Limits Chart"). With a defined contribution plan, the employee chooses where the money will be invested. The money can be invested in a variety of different vehicles ranging from certificates of deposits to annuities or mutual funds (Boon, Kurtz, and Hearth, 463). The main difference between a 401 (k) plan and a 403 (b) plan is the type of institution that sponsors them. A 401 (k) plan is sponsored by most public and privately held companies, whereas a 403 (b) plan is sponsored by nonprofit organizations such as educational institutions and charitable organizations (Madura, 530-531).

Other defined contribution plans are profit sharing plans and money purchase plans. A profit sharing plan is set up by a company to allocate a portion of the company's profits to employees' retirement plans. The amount that is contributed will fluctuate from year to year depending upon firm performance. A money purchase plan also puts money into the retirement plans of the employees; however, instead of it being based on profit, the money purchase plan offers a fixed dollar contribution amount based on a percentage of an employee's salary (Lum, 360).

Another way that people can invest for retirement on their own (without employer assistance) is through individual retirement plans such as a traditional IRA (individual retirement account), Roth IRA, or a Keogh plan for self-employed individuals. Traditional IRA's are retirement plans where individuals contribute money on a tax-deferred basis. With a traditional IRA, up to \$3,000 per year can be contributed (expected to grow to \$5,000 by year 2008, *see chart below*) and the money is put into the account on a pre-tax basis and taxed when withdrawn ("Retirement Plan").

IRA Contribution Limits

2002-2004	\$3,000
2005-2007	\$4,000
2008 and thereafter	\$5,000 (indexed in \$500 increments)

The contribution limits are set by the Economic Growth and Tax Relief Reconciliation Act of 2001 ("Plan Limits Chart"). At the time of withdrawal, the individual will pay taxes on the entire accrued amount (principal + interest) held in the account. With a Roth IRA, the contribution limits are the same but the money is invested after taxes have been paid. The advantage is that taxes will not have to be paid on any amounts again (even interest earned) when the money is withdrawn from the account.

In choosing whether to invest in a Roth IRA or a traditional IRA, something to consider besides the tax benefits are the estate benefits of a Roth IRA. One advantage of the Roth over the traditional IRA is that the individual does not have to begin taking funds out of the account at the age of 70 ½. By not drawing upon the funds in the account, individuals may leave a larger sum of money to their heirs after death, and that sum will keep earning interest. Not only will the heirs receive a larger amount of money, they will also pay no income taxes on the money that has been left to them. A Roth IRA also allows the owner to change the beneficiary of the account if the original beneficiary dies before the owner; this cannot be done with a traditional IRA. For instance, if a husband makes his wife the beneficiary and she dies before he does, the husband can choose to leave the funds to his daughter. The traditional IRA does not allow him to do this. When he dies, "the daughter will be required to take distributions over the father's remaining life expectancy" (Bruckenstein, 30).

A Keogh plan enables self-employed individuals to save for retirement. It is similar to a pension plan, but also has characteristics of an IRA account. With a Keogh plan, individuals can invest a greater amount of money into the plan each year, in addition to enjoying a tax deferment (Boon, Kurtz, and Hearth, 465). "Unlike defined benefit plans, which end when you or your spouse dies, defined contribution plans have account balances that can go to your heirs" (Lum, 360).

Tax treatment of retirement savings is an important consideration when determining which option to choose. With a 401 (k) plan, a tax benefit will be earned now since contributions are made on a pre-tax basis, the entire value of this plan will be taxed when withdrawn. "For example, if you're in a 15% tax bracket today, but sock away enough to be in a 27% bracket at retirement, you might be paying more taxes down the road than you think" (Watson, 214). The benefits of a Roth IRA, as explained earlier, are that people who invest in them do not have to pay taxes on any of the gains since initial contributions are made with after-tax dollars. Another important fact to remember is that any capital gains that are earned from stocks in a 401 (k) plan are taxed as ordinary income when taken out. If the stock is purchased from an ordinary brokerage account, the money is taxed at a capital gains rate, which is currently capped at 20%. Because of the complexity that is added by different tax treatment and estate planning, it is a good idea to sit down with a financial planner to weigh all of these issues (Watson, 214).

III. Regulations

Reviewing the laws enacted to regulate the retirement plans available to individuals is also critical. The two laws that will be reviewed in more detail are the Employee Retirement Income Security Act (ERISA), mentioned earlier, and the Economic Growth and Tax Relief Reconciliation Act of 2001.

Congress passed the Employee Retirement Income Security Act, or ERISA, in 1974 as a way to improve the nation's defined benefit plans.

> ERISA is a protective statute passed in response to a wide variety of abuses, including investment of pension plan assets in securities and vehicles controlled by employers or affiliates of employers. To prevent future abuses, Congress imposed strict rules of conduct on fiduciaries. ERISA provides that a person is a fiduciary "to the extent" that the person has or exercises discretionary authority over a plan's assets, provides investment advice to the plan for a fee, or has discretionary authority or responsibility with respect to plan administration (Pickle, 3).

Since there are many investment options that could have higher rates of return to investors, it is important that both the investing fiduciaries and fund managers understand the risks involved. They need to be sure that the investment option that is being pursued is compliant with ERISA regulations in order to avoid penalties. There are many different issues raised by ERISA, but if implemented correctly, it can help reduce the amount of legal risk (Pickle, 10).

The Economic Growth and Tax Relief Reconciliation Act of 2001, or EGTRRA, was enacted on June 7, 2001 to reduce the maximum tax rates, increase exemptions from taxes, and repeal the estate tax in the year 2010 (Victor, 24). The act was publicized as a "repeal" of the estate tax, which is technically but not entirely true. The EGTRRA will repeal the estate tax for the year 2010. If an individual dies before 2009, he/she will not benefit from the repeal on estate tax; however, the amount that can be passed down to heirs, avoiding taxation, has been increasing since 2002 (Platt, par. 2). The amount that can be passed down to heirs is referred to as the "Unified Credit." This amount increased from $675,000 in 2001 to $1,000,000 for deaths occurring in year 2002. The amount will continue to grow until 2010, when it is repealed, as follows:

Year of Death	Unified Credit
2002-2003	$1,000,000
2004-2005	$1,500,000
2006-2008	$2,000,000
2009	$3,500,000
2010	Unlimited
2011	$1,000,000

While the Unified Credit is increasing, the top federal estate tax bracket is being reduced. It was reduced from 55% to 50% in 2002, and will be reduced by 1% each subsequent year until it reaches 45% (Platt, par. 5).

IV. Investment Alternatives

Smart investing requires reliable and accurate information upon which to base decisions. Most long-term investment plan options include mutual funds. The best place to obtain details about a fund is in the prospectus. A prospectus is a legal document that discusses each fund's objectives, policies, management fees and expenses. Fund companies are required to give a prospectus to an investor when he or she buys mutual fund shares. It is a good idea to request the prospectus of all fund companies that are of interest. The prospectus will tell you:

- The fund's objectives—As you study this section, remember you are trying to find a fund that matches your investment goals, attitudes, and risk level.
- What the fund invests in—This states what the fund may buy.
- How much the fees are—The charges are expressed as a percentage of your investment (for example, a 1% management fee) and are all listed in the fee table at the front of the prospectus.
- The portfolio turnover rate—This tells you how often the mutual fund manager buys and sells the securities within the fund. The higher the turnover rate, the higher the brokerage costs, which are an expense to the fund ("Building Blocks," 33).

Investment goals vary from individual to individual due to the differences in risk preferences. If there are two individuals, both around the age of 35 and making the same amount of money, they may have significantly different investment strategies. One may have children in school, and may be interested in creating a college fund; this investor will be risk averse. The other person may have no family and is willing to take on more risk for the potentially greater returns. There are many factors to consider when choosing the type of investment that is right for each individual, which is why this needs to be done on an individual basis.

When simplified, there are four different investment strategies that individuals can follow. From the least risk to the most risk, respectively, these include stability, income, growth and income, and growth. A stable investment strategy is one of low risk and is for individuals who want to maintain the least fluctuation in their principal investment. This option may be most appropriate for investors who will need their money in the near future. They may be close to retirement, and do not want to risk any portion of their retirement fund because they will need it soon. A stability fund would invest in a diversified group of safe investments, which may include certificates of deposit, commercial paper, U.S. Treasury bills, banker's acceptances, or other money market investments ("Building Blocks," 37).

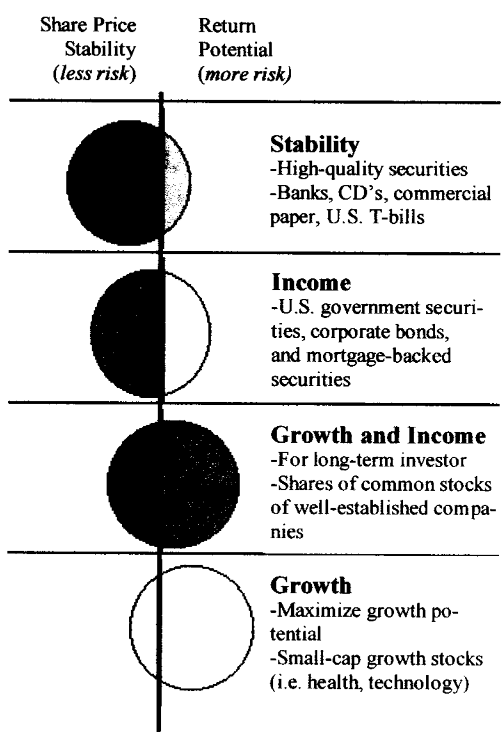
The second type of investment strategy is the income option. This strategy carries more risk than the stable options. The income strategy is categorized as having low to moderate risk and is geared toward individuals who are looking for a decent level of income over the long term and who can afford moderate price fluctuations. This type of investment might be ideal for a married couple with children, but who still have at least 20 years before retirement. This strategy will allow them to take on a little more risk while potentially benefiting from higher returns over time. The fund invests in a variety of investments that may include United States government securities, corporate bonds and mortgage-backed securities. This type of investment is also considered to be a bond fund, which invests "in a variety of government and corporate debt securities known as bonds or fixed-income securities. A bond fund earns the composite rate of all the bonds it holds" ("Building Blocks," 39).

Another type of investment option is one that has moderate risk and is called growth and income. A growth and income fund invests in stocks and seeks growth through the increase in the price per share of the stocks. This fund also invests in dividend-paying stocks, which provide a source of income. The growth and income fund tends to be less volatile than the growth fund, while providing more potential growth than the income category ("Building Blocks," 41). This fund is more appropriate for long-term investors who seek growth through the increase in stock share prices. Since the investors are taking on a higher level of risk, the expected level of return is much greater. Investors in the growth and income fund must be willing to accept the ups with the downs, and be able to afford those fluctuations ("Building Blocks," 40).

The final investment strategy is through a growth fund. This type of investment has the greatest potential return as well as the highest risk. A growth fund invests in stocks that have the potential for substantial increases in value. "The goal is to provide capital appreciation for the fund's shareholders over the long term" ("Building Blocks," 44). This fund also incurs more fluctuations in value than the other funds discussed. A growth fund consists of a diversified portfolio of small-capitalization growth stocks, including electronic technology, health technology, finance, industrial services, and retail ("Building Blocks," 45). This is ideal for the young investor who may have just started his career and has a long time before retirement and who can afford to incur a little more risk.

The chart below illustrates the amount of risk being taken relative to the amount of potential return. The chart shows where each investment option in the plan fits. It starts with the plan with the least risk and least potential for return (stability) and continues through the spectrum to the plan with the greatest risk and greatest potential return (growth) ("Building Blocks," 35).

Investment Options



V. The Employer's Role

After reviewing the different plan options that are available from employers as well as through Individual Retirement Accounts, the next critical issue is how firms invest the retirement money of its employees through its pension plans. How much of the firm's pension plan is invested in the company's own stock? Is the fund properly diversified? What happens to an employee's retirement savings if the company goes under? These are all very important questions that everyone should know about their firm's retirement plan, especially those questions dealing with the pension funding.

Before discussing the importance of having a diversified portfolio, it may be instructive to look at the case of Enron. Enron was a very successful energy company. At its peak, Enron was worth about $70 billion, with a stock price of approximately $90 per share. Enron's fame and fortune came to a sudden end in October, 2001 when the firm admitted that it had falsely reported its income, and that the value of its equity was a couple of billion dollars less than reported on its balance sheet. National Public Radio made the following report on the Enron case, and on Arthur Andersen's involvement:

> The company, it was revealed, had made about a dozen "partnerships" with companies it had created, and it used those partnerships to hide huge debts and heavy losses on its trading businesses. At the same time, Arthur Andersen, the company that audited Enron's books, at best neglected to recognize the company's problems. At worst, investigators now say, the auditor was complicit in perpetrating one of the biggest frauds in corporate history ("The Fall of Enron").

On Dec. 2, 2001, Enron declared bankruptcy. This event left thousands of people without jobs and caused substantial losses for investors, including Enron employees, due to the fact that Enron's stock was only worth pennies ("The Fall of Enron"). The fall of Enron affected a lot of individuals.

The fall of Enron illustrates the importance of knowing how a firm invests its pension funds. The Department of Labor reported that 63% of Enron's 401 (k) assets were invested in the company's own stock at the end of 2000. This investment strategy exposed Enron employees to substantial risk in the event that the company went under. The collapse of Enron shows the importance of diversification in a portfolio, as well as the employer's matching contributions. Diversifying a portfolio spreads holdings over a variety of investments, which eliminates "excessive exposure to any one source of risk. Many workers are covered by participant-directed 401 (k) plans that allow participants to allocate the investment of their account balances among a menu of investment options, including employer stock" (Walker, 10). This practice empowers workers by letting them choose how their money should be invested.

When the majority of an employee's retirement funds are invested in his/her employer's stock, as in the Enron case, it exposes the individual to an extreme level of risk. If something happens to the company, and most of the workers' retirement monies are invested in the firm, they lose everything. The company goes bankrupt so everyone loses their jobs. All of the money they had invested for retirement was in the company. They are left with nothing.

Since the fall of Enron, there has been much concern over the laws that regulate retirement funding. Employees are beginning to realize that investing all of their retirement funding into the company they work for is not a wise strategy. When the stock price of the company is up, it may seem like the best thing to do, but there is always the possibility that bad things may happen, as in the Enron case. That is why diversification is key in any type of investment. You do not want to have all of your eggs in one basket.

This brings us to the question of why people invest heavily in the company they work for, if they know it is smart to diversify. This is a question that lacks a simple answer. For some individuals, they may feel that having more of their money invested in the firm that they work for gives them more control over the money. Since they work for the firm, they are part of the team effort that goes into making the company successful. Therefore, there is a direct incentive for them to work harder because they might not only receive benefits in the form of bonuses, but also in terms of the stock price of the company in which a portion of their retirement is invested. This is also beneficial to the firm. It is good for companies if a portion of its outstanding shares are owned by employees, for the same reason. If the investors who own the stock also work for the company, they not only compromise the company if they work poorly, but hurt themselves as well.

Having demonstrated that it is beneficial to a firm for employees to own shares of the company's stock, it is easy to see why some firms use stock to match employees' retirement contributions. If a firm offers a dollar-for-dollar matching contribution for employees' 401 (k) plans, every dollar invested by the individual is matched by the employer. Instead of making a cash contribution to the employees' 401 (k) plans, the firm may contribute in an equivalent amount in company stock. If individuals make yearly contributions of $4,000 to their retirement accounts, they will receive an additional $4,000 of company stock in their retirement plan. This puts the employees' investment in the firm at 50%, assuming that they do not want any of their own $4,000 to be invested in the firm. Having this much invested in the company puts the employees at risk if the company files for bankruptcy. In a study done by Hrfocus publisher IOMA (New York City; www.ioma.com) on the 401 (k) plans of 219 companies, it was discovered that 25 of the companies had more than 60% of their 401 (k) plan assets in company stock (Anonymous, 1).

With this information concerning how firms provide funding to 401 (k) plans, is it still desirable to use company stock to match employee contributions? R. Theodore Benna, President of the 401 (k) Association, believes that it is desirable. He does not, however, approve of participants making contributions to company stock. Benna feels that "if you put limits on the company contribution to company stock, the employees will be the losers, because some employers will stop or limit their matches" (Anonymous, 13).

In the Enron case, employees had a substantial portion of their retirement funding invested in company stock. In addition, participants with 401 (k) plans had their assets frozen on October 17, 2001. This prevented all employees who had invested in company stock for their 401 (k) plan from moving the funds to another investment. That day, Enron's stock was worth $32.30 per share, but soon after, it was worth only pennies (Anonymous, 1). This exacerbated the major losses of many individuals' retirement savings.

Since planning for retirement is a vital issue for everyone, it is important to have an understanding of how retirement plans work. The needs of individuals are different from person to person, and can also vary from firm to firm as influenced by the stipulations for retirement. It is a good idea to understand where the money will be invested, what kind of a matching contribution (if any) the employer makes, and what the person's individual needs for retirement are. The best advice is to consult a financial planner and develop an investment strategy that fits the individual, while being aware of the various aspects of the plan. Always remember that diversification is very important when investing.

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